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## **Habitual Entrepreneurs: Debates and Directions**

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## Chapter 1 Introduction

### 1.1. Learning Objectives

**Cantillon (1755) is often associated with the term ‘entrepreneur’. He suggested that entrepreneurs react to profit opportunities, bear uncertainty and continuously serve to bring about a (tentative) balance between supplies and demands in specific markets. Entrepreneurs undertake activities and the entrepreneur is the pivotal figure who operates within a set of economic markets. Unlike Cantillon, Knight (1921, 1942) did not believe everyone could become an entrepreneur. Knight suggested entrepreneurs are ‘calculated risk takers’ who assemble resources and co-ordinate scarce resources to exploit business opportunities.**

**Entrepreneurship occurs over time (Low and MacMillan, 1988) and is not a static event. The standard and uncritically assumed normative representation of the entrepreneurial actor relates to the owner of one single business, which sustains her or his life-time career in business ownership (or self-employment). This view exists in isolation and does not correlate with the entrepreneurial careers of a growing number of entrepreneurs in developed and developing economies. The latter view ignores the habitual entrepreneur phenomenon.**

Studying habitual entrepreneurs encourages a focus on the assets (and liabilities) of an individual’s human capital to be viewed through a dynamic rather than a static lens (MacMillan, 1996). A dynamic view appreciates that rather than only being involved in one venture, entrepreneurs can vary in the nature and extent of their prior business ownership experience (PBOE).

Focusing on the entrepreneur rather than the firm as the unit of analysis this chapter encourages reflection relating to the careers that can be followed by entrepreneurs with regard to different business ownership forms. We encourage reflection relating to the fact that entrepreneurial behaviour is not solely exhibited with regard to the foundation of do novo private new firms. Entrepreneurs can exhibit entrepreneurial behaviour in family firm, management buyout (MBO) and other contexts. Entrepreneurship can also relate to exit decisions. Some entrepreneurs over their entrepreneurial careers close and/or sell one or more of the businesses they own. We encourage reflection relating to the motives, resources, behaviour and performance of serial entrepreneurs. Studies focusing on the life-cycle of the firm may ignore that some entrepreneurs may own two or more businesses at the same time for

a variety of economic and non-economic reasons. We encourage reflection relating to the motives, resources, behaviour and performance of portfolio entrepreneurs. In this chapter, we define and describe the profile of habitual entrepreneurs, and highlight sub-groups of habitual entrepreneurs termed serial and portfolio entrepreneurs. A growing body of studies relate to the habitual entrepreneur phenomenon, but there are few dedicated texts that focus upon the phenomenon (Ucbasaran et al., 2006, 2008). Readers are encouraged to appreciate that academic articles focusing on the habitual entrepreneur phenomenon (or sub-groups of serial and portfolio entrepreneurs) differ in their focus, purpose and contribution. Under the umbrella of the habitual entrepreneur phenomenon, we highlight that initial studies relating to this new and emerging sub-field in entrepreneurship generally described the profiles of habitual, serial and portfolio entrepreneurs. However, we encourage readers to appreciate that more recent studies are more clearly linked to policy, practitioner and/or theoretical debates. More recent studies are theory building or theory testing studies, and they build on mainstream perspectives in entrepreneurship and management. Gaps in the knowledge base exist with regard to the habitual entrepreneur phenomenon. In this book, several key themes relating to the entrepreneurial process are discussed in the following chapters. We focus on entrepreneur diversity with reference to the habitual entrepreneur phenomenon. Issues relating to habitual entrepreneur definition, resources, behaviour and performance are highlighted.

## **1.2. Entrepreneur Diversity**

Entrepreneurship is about what entrepreneurs ‘do’, but debate surrounds the ‘roles’ of entrepreneurs (Landström, 2005; Hébert and Link, 2006; Westhead and Wright, 2013). High profile successful entrepreneurs have fostered popular interest into the backgrounds and behaviour of entrepreneurs. Throughout the world, entrepreneurs and their firms are viewed as the panacea to solve national and local development issues (Organisation for Economic Co-Operation and Development (OECD), 1998; Department of Trade and Industry (DTI), 2004; Storey, 1994). The popular perception relates to entrepreneurs as heroic yet maverick individuals, single-handedly and relentlessly pursuing opportunity and enjoying exotic lifestyles as a result (Drakopoulou Dodd and Anderson, 2007). The latter perception fails to appreciate entrepreneur diversity, the fact that some entrepreneurs have careers in business ownership, entrepreneurs make mistakes and their ventures may fail, and some entrepreneurs own two or more businesses at the same time.

Studies focusing on the entrepreneur as the unit of analysis may explore ‘who the entrepreneur is’ (i.e., the entrepreneur as a particular type of person or the entrepreneur as the product of a particular environment), or ‘what the entrepreneur does’ (i.e., the entrepreneur as the performer of a particular role in society, entrepreneurship as a specific input in the economy, entrepreneurial events, and entrepreneurial processes). Generally, scholars have traditionally focused on the profiles of entrepreneurs and ‘what the entrepreneur does’ (Westhead and Wright, 2013). Here, we appreciate that entrepreneurship and entrepreneurs are complicated and ambiguous phenomena. Notably, we highlight that some people have careers in business ownership and entrepreneur exists relating to an individual’s PBOE. We focus on entrepreneur diversity with reference to the habitual entrepreneur phenomenon. Issues relating to habitual entrepreneur definition, contribution, resources, behaviour and performance are highlighted.

Despite growing media, practitioner and academic interest relating to the entrepreneurship phenomenon, it is very difficult to present an over-arching theory of entrepreneurship. This is because there is no consensus surrounding the definition of entrepreneurs or the entrepreneurial process (Westhead et al., 2011). Beyond definitional problems, an additional source of difficulty in understanding entrepreneurship stems from the heterogeneity of entrepreneurs. One notable source of heterogeneity is variations in the extent and nature of entrepreneurs’ experience (Reuber and Fischer, 1999), in particular PBOE. As highlighted, entrepreneurship is not a single action event and some people have careers in entrepreneurship (Westhead and Wright, 1998).

Variations in PBOE have led to the distinction between experienced (i.e., habitual) entrepreneurs and first-time (i.e., novice) entrepreneurs. An individual’s human capital needs to be viewed through a dynamic rather than a static lens. Rather than only being involved in one venture, entrepreneurs can vary in the extent and nature of their PBOE. Scott and Rosa (1996: 81) asserted that:

“The study of multiple ownership should be more than a specialist curiosity, but fundamental to our understanding of the process of capital accumulation in a free-enterprise economy and society, a process that is entrepreneur, not organisationally-based, and which operates across all size boundaries. The processes of ownership diversification may shed new light on the way we can conceptualise start-up and growth dynamics”.

### 1.3. Definitional Issues

Definitions of the habitual entrepreneur phenomenon have evolved. Initially, there was no generally accepted definition of a habitual entrepreneur. Donckels et al., (1987: 48) suggested that:

“Multiple business starters are entrepreneurs who, after having started a first company, set up or participate in the start-up of (an) other firm(s).

Similarly, Birley and Westhead (1993: 40) focused on ‘habitual’ founders who had established at least one other business prior to the start-up of the current independent venture. Thorngren and Wincent (2015) defined habitual entrepreneurs solely with regard to entrepreneurs that own two or more start-ups (i.e., individuals who have been exposed to multiple venture engagements).

Habitual entrepreneur definitions do not solely relate to new firm formation (NFF) alone (Westhead et al., 2005a). Business ownership and a decision-making role within the firm are now widely recognized as important dimensions of entrepreneurship (Marshall, 1920). Given the prevalence of team-based entrepreneurship, this ownership may involve minority or majority equity stakes. The emerging opportunity-based conceptualization of entrepreneurship (Shane and Venkataraman, 2000) suggests that entrepreneurship involves the discovery and exploitation of at least one business opportunity. In contrast to views of entrepreneurship that focus on NFF, this approach recognizes that a business opportunity can be exploited through NFF, the purchase of an existing private firm, the discovery and creation of new opportunities in existing (family and non-family firms) (Westhead and Wright, 2013), or the discovery and creation of opportunities for self-employment. Entrepreneurs can, therefore, be viewed as having a minority or majority ownership stake in at least one business that they have either created or purchased, within which they are a key decision-maker. With regard to these key elements of entrepreneurship, the following distinction between novice and habitual entrepreneurs can be made (Ucbasaran et al., 2008).

*Novice entrepreneurs* can be defined as individuals with no PBOE who currently own a stake in an independent firm that is either new or purchased. *Habitual entrepreneurs* hold or have held an ownership stake in two or more firms, at least one of which was established or purchased. Habitual entrepreneurs can be sub-divided into serial and portfolio entrepreneurs. *Serial entrepreneurs* have sold / closed at least one firm which they had an ownership stake in,

and currently have an ownership stake in a single independent firm. *Portfolio entrepreneurs* currently have ownership stakes in two or more independent firms.

A business opportunity can be exploited through NFF, purchase of an existing private firm, discovery and creation of new opportunities in existing firms, or discovery and creation of opportunities for self-employment. This variety gives rise to a categorization of habitual entrepreneurship by the modes through which it can occur. Table 1.1 shows that habitual entrepreneurs covered by cells 1 to 5 engage in entrepreneurship sequentially, while those in cells 6 to 10 engage in concurrent entrepreneurial activities. The entrepreneurs in cells 1 and 6 found a new independent firm, while those in cells 2 and 7 are involved in new firms spun-off from other organizations. Entrepreneurs in cells 3 and 8 have become owners of an established independent firm either as individuals from outside the firm undertaking a straight purchase or a management buyin (MBI), or individuals from inside undertaking a MBO. Some buyouts involve founders selling their businesses and subsequently buying them back when the acquirers find themselves unable to generate adequate performance because they do not possess the tacit knowledge of the founder. Further, some buyouts are secondary buyouts where the same management acquires a larger stake in the firm through a financial restructuring associated with initial private equity investors selling their shares. Entrepreneurs in cells 4 and 9 are engaged as corporate entrepreneurs in existing firms, and have not purchased the firm. Entrepreneurs in cells 5 and 10 are self-employed individuals who do not form a specific legal entity.

**Table 1.1      Categorization of Habitual Entrepreneurship**

<b>Nature of entrepreneurship</b>		Serial entrepreneurs	Portfolio entrepreneurs
<b>Involving New Business(es)</b>	<b>De Novo Business</b>	Serial founders (1)	Portfolio founders (6)
	<b>Spin-off (including corporate &amp; university spin-offs)</b>	Serial spinout entrepreneurs (2)	Portfolio spinout entrepreneurs (7)
<b>Involving Existing Business(es)</b>	<b>Purchase (including buyouts / buyins)</b>	Serial acquirers (e.g. secondary MBOs / MBIs) (3)	Portfolio acquirers (e.g. leveraged build-ups) (8)
	<b>Corporate Entrepreneurship</b>	Serial corporate entrepreneurs (4)	Portfolio corporate entrepreneurs (9)
<b>Involving No New Legal Entity</b>	<b>Self-Employment</b>	Serial self-employed (5)	Portfolio self-employed (10)

Source: Authors.

#### **1.4. Scale of the Habitual Entrepreneur Phenomenon**

Survey evidence from stratified random samples of independent private firms is now widely used to ascertain the scale of the habitual entrepreneur phenomenon (Birley and Westhead, 1993). Given the emphasis on the entrepreneur as the unit of analysis, several questionnaire surveys have been sent to a key respondent (i.e., a decision maker) in each of the randomly selected businesses, generally a founder and/or the principal owner. Studies have confirmed habitual entrepreneurs are a widespread and substantial phenomenon. Habitual entrepreneurs have been detected to be highly prevalent in the UK (12% to 52%), US (51% to 64%), Finland (50%), Australia (49%), Norway (47%), Ghana (40%), Sweden (30% to 40%) and Malaysia (39%) (Ucbasaran et al., 2008; Robson et al., 2012a). Some scholars studying multiple business ownership have focused on business groups relating to the set of businesses under control of the habitual entrepreneur (Rosa, 1998; Rosa and Scott, 1999).



Habitual entrepreneurship may arise in settings where opportunities for growth are restricted, forcing the entrepreneurs to substitute growth of one venture with the creation of multiple firms. The following reasons for habitual entrepreneurship have been identified: tax reasons and to support the first venture established; and desire for independence, autonomy and personal wealth creation. Monetary gain may become less important in subsequent firms, partly because they do not want to put at risk wealth generated from an earlier successful firm.

The ‘correct’ magnitude of the habitual entrepreneur phenomenon is difficult to determine. Variations in the scale of the habitual entrepreneur phenomenon is, in part, shaped by the habitual entrepreneur definition operationalized, the industrial sector(s) focused upon, and whether team ownership is considered. Nevertheless, the scale of the phenomenon highlighted above suggests increased academic and practitioner interest is warranted to understand the profiles, behaviour and contributions of habitual entrepreneurs and their firms.

### **1.5. Knowledge Gaps and Research Themes**

Research relating to the habitual entrepreneur phenomenon has evolved from initial ‘ground-clearing’ descriptive studies of the phenomenon through qualitative studies focused on theory development, to quantitative studies undertaking hypothesis testing. Birley and Westhead (1993) claimed that there was no single theory to facilitate hypothesis formation and testing relating to habitual entrepreneurs. Their exploratory study provided a ‘descriptive background’ surrounding the under-researched habitual entrepreneur. With reference to a large representative sample of firms in Great Britain their univariate analysis provided initial insights surrounding the differences (and similarities) between habitual and novice entrepreneurs in relation to the founder (i.e., personal background, work experience, reasons leading to start-up, and personal attitudes towards entrepreneurship), the surveyed firm (i.e., basic business data, customer and supplier base, competitive structure, future of the business and performance), and environment (i.e., local economic environment and policy and support services).

To build theory and to provide appropriate contextualized support to address the market failures facing each ‘type’ of entrepreneur, there is a need for a greater understanding of the resources profiles, behaviour and contributions of each ‘type’ of entrepreneur relating to the extent and nature of their PBOE. Reuber and Fischer (1999) have asserted that scholars and practitioners should assess the value of founders’ experience in terms of their ‘stock’ and ‘stream’ of experience. An entrepreneur’s stock of experience relates to both the depth and breadth of experience accumulated over time. In contrast, an entrepreneur’s stream of

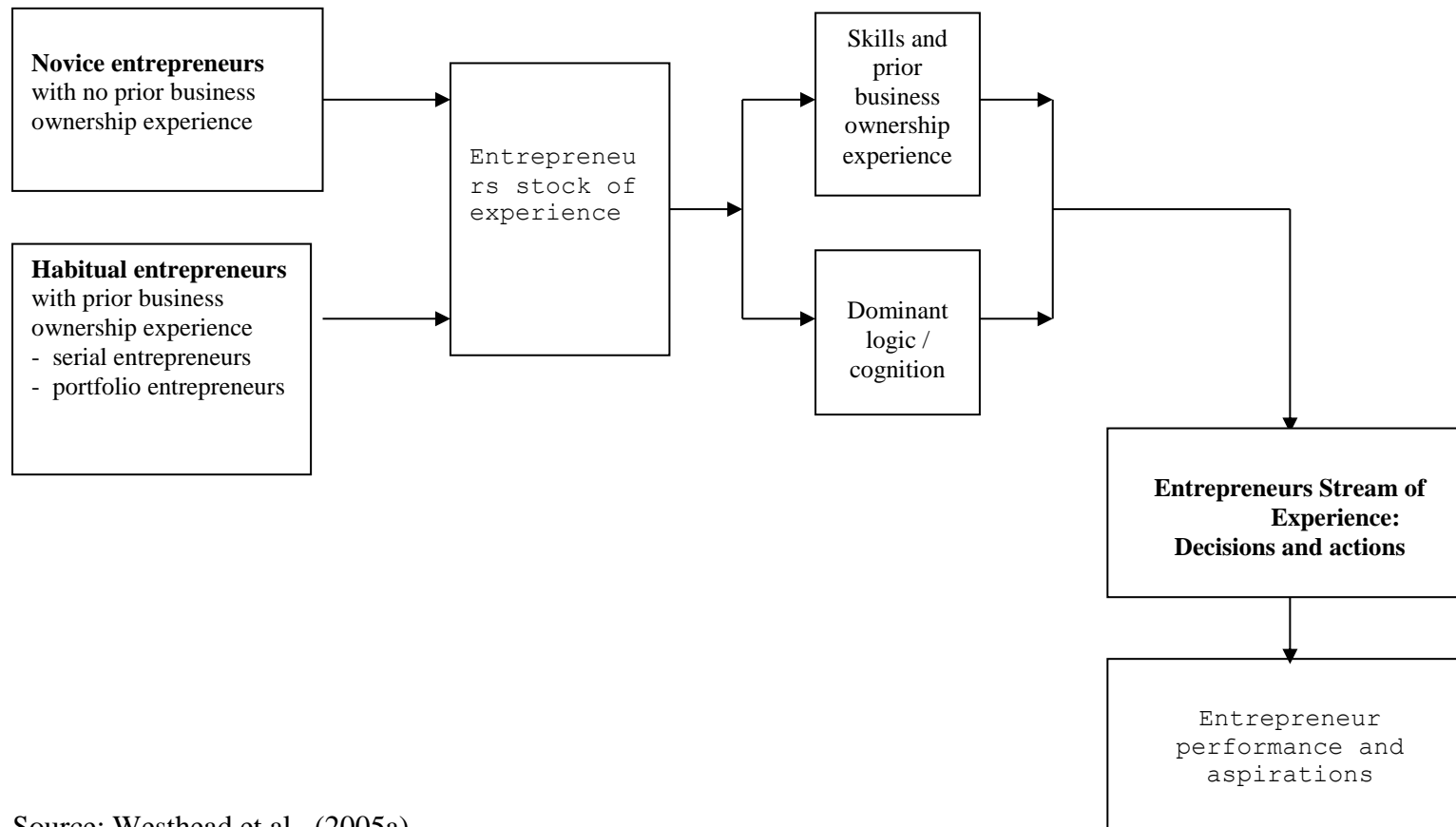
experience relates to the entrepreneurial process, which is associated with experimentation and learning. Reuber and Fischer argue that the entrepreneur is the appropriate unit of analysis when analyzing the stock of experience. Also, Reuber and Fischer (1999: 34) stated that:

“the experience of the founder / owner and the management team (if there is one) are the same as the experiences of the firm”.

Conversely, Reuber and Fisher asserted that the venture is the appropriate unit of analysis when examining the stream of experience.

Westhead et al., (2005a) extended Reuber and Fischer’s (1999) conceptual framework with regard to an individual’s experience of owning an equity stake in one or more private firm(s). This framework is presented in Figure 1.1. An entrepreneur’s stock of experience includes both the depth and breadth of experience accumulated at a point in time. The stream of experience relates to experience possessed over time.

**Figure 1.1 The Mediating Relationships Between PBOE and Entrepreneur Behaviour and Performance (Adapted from Reuber and Fischer, 1999, Figure 1, p.31)**



Source: Westhead et al., (2005a).

Issues related to the stock of experience are discussed in Westhead et al., (2003). More limited attention has, however, been paid to the stream of experience. Westhead et al., (2005a) called for additional studies to focus upon the stream of an entrepreneur's PBOE. They suggested that studies should focus upon the decisions and actions (i.e., stream of experience) exhibited by habitual entrepreneurs. For example, studies should explore the information search and opportunity recognition behaviour reported by novice, serial and portfolio entrepreneurs. Further, they asserted that studies should monitor outcomes related to the entrepreneurial process with regard to the performance of entrepreneur, rather than the surveyed independent firm(s) in which they have equity stakes. Scholars considering entrepreneurial events, processes and outputs in the contexts in which they occur are reflecting upon the following questions (Westhead and Wright, 2013):

- *What is habitual entrepreneurship?*
- *Why is habitual entrepreneurship important?*
- *What is the scale of the habitual phenomenon?*
- *What do habitual and sub-types of habitual entrepreneurs do?*
- *What is distinctive about habitual entrepreneurs?*
- *Do some types of habitual entrepreneurs make greater contributions?*

## **1.6. Organizing Framework and Book Structure**

The entrepreneurial process is at the epicenter of the debate about entrepreneurship (Moroz and Hindle, 2012). This is because it concerns what needs to take place to make entrepreneurship happen. Lack of consensus about 'what entrepreneurs do' and 'who entrepreneurs are' gives rise to several approaches to understanding entrepreneurs and the entrepreneurial process (Westhead and Wright, 2013). Generally, the entrepreneurial process involves all the functions and activities associated with perceiving opportunities and pursuing them. A narrow view focuses on the emergence of new organizations, while a broader view focuses on the emergence of opportunities irrespective of whether it takes place in a new or existing firm. Accumulating (and mobilizing) resources is a key cross-cutting issue. Some see entrepreneurship as the process by which individuals pursue and exploit opportunities irrespective of the resources they currently control. Others focus on how entrepreneurs can

utilize the resource they have to hand, while yet others examine the process by which entrepreneurs access and coordinate their resources.

We discuss issues relating to the habitual entrepreneur phenomenon with reference to several themes highlighted by Gartner (1985). He presented a conceptual framework to describe the phenomenon of new venture creation. Gartner (1985) made a distinction between: the characteristics of the individual(s) starting the new venture; the organization they create; the environment surrounding the new venture; and the process by which the new venture is created. Building on these insights, six themes within entrepreneurship studies (Ucbasaran et al., 2001) are highlighted in Figure 1.2. These themes will be discussed in the following chapters of this book to discuss the habitual entrepreneur phenomenon.

Theme 1 relates to *theory*. Several theories have been presented to explore the entrepreneurial process, and the behaviour and performance of entrepreneurs and their firms. These theories reflect the diversity of the nature of entrepreneurship and entrepreneurs. Entrepreneur resources are discussed in relation to human capital and cognition theory in Chapter 2.

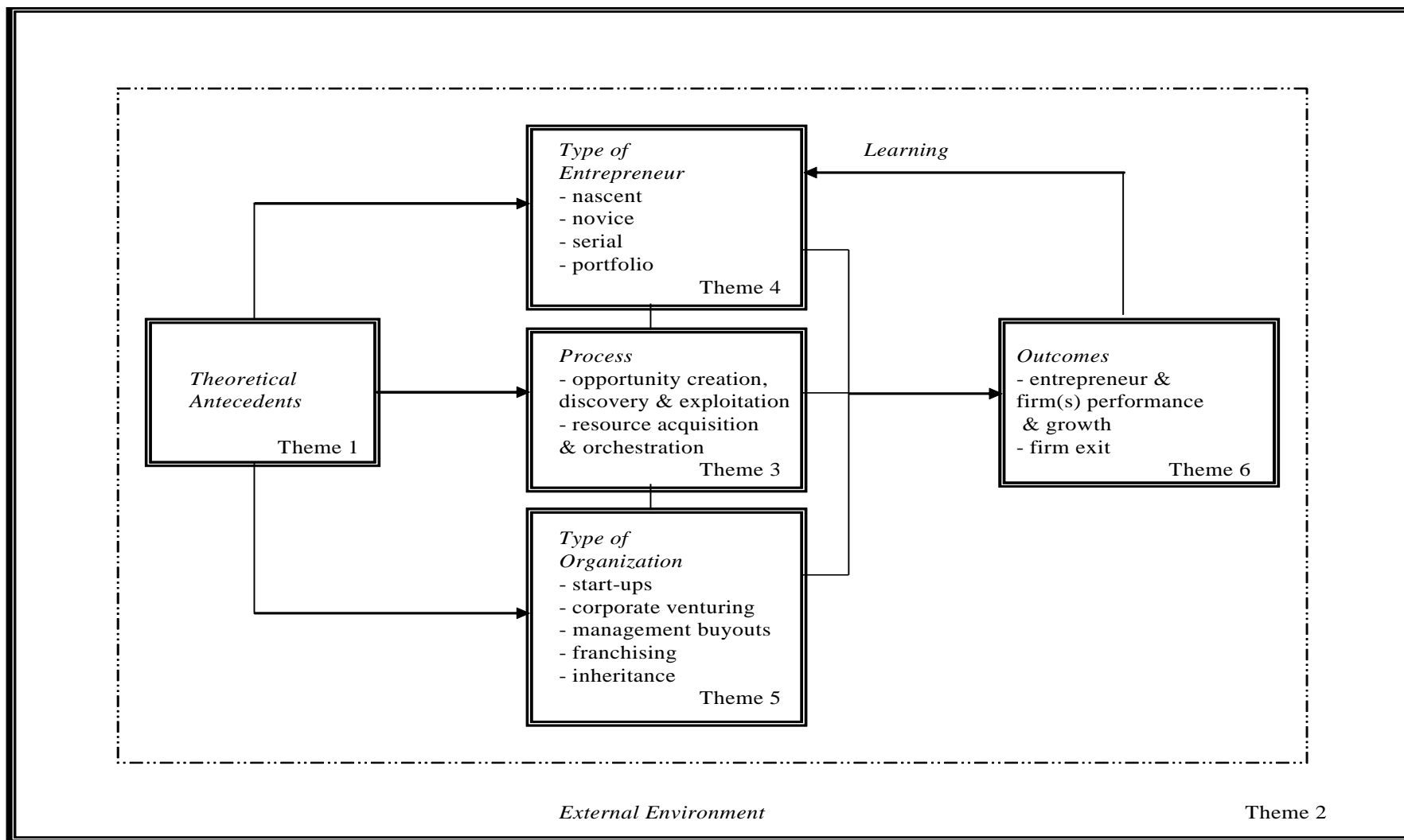
Theme 2 relates to the *external environment for entrepreneurship*. Above, it was suggested that policy-makers and practitioners are encouraging the supply of entrepreneurs, and the growth of new firms to generate economic and non-economic benefits. Governments in developed and developing economies are seeking to foster an enterprise culture. External environmental context can shape resource availability, the actions undertaken by entrepreneurs and the performance of their firms, which is also illustrated by theme 4. In this book, the authors studies conducted in Belgium, Great Britain, Scotland and the United Kingdom developed economies, and the Ghana developing economy are discussed. Also, insights from studies conducted in other contexts are highlighted.

Theme 3 relates to the *process of entrepreneurship* that can develop over time. Here, there is a need to explore what entrepreneurs do with regard to creating and recognizing opportunities, as well as the assembling, mobilization and orchestration (i.e., entrepreneurial team, organizational, and external environmental) of resources to exploit opportunities. Entrepreneur resource profiles differences between habitual and novice entrepreneurs are highlighted in Chapter 3. Entrepreneur resource accumulation specifically in relation to finance is discussed in Chapter 4 and in relation to networking and resource orchestration is discussed in Chapter 5. Issues relating to opportunity discovery and creation are highlighted in Chapter 6.

Theme 4 relates to *types of entrepreneur*. Different types of entrepreneurs exist and they can be shaped by their context. Social context, such as where entrepreneurs come from, can shape aspirations, expectations and access to specific human capital resources relating to industry know-how, management know-how, and entrepreneurial capabilities. Differences also relate to how entrepreneurs think (i.e., personality and cognitive mindset) and learn. Issues relating to types of habitual (i.e., serial and portfolio) and novice entrepreneurs are discussed in Chapter 1.

Theme 5 relates to *types of organizations*. We adopt a broad view of entrepreneurship. Besides the creation of new independent firms, entrepreneurship can be exhibited in family firms, corporate ventures, MBOs and MBIs, academic spin-offs and social enterprises. As illustrated in Section 1.2, we recognize that business ownership can occur in many formats. Presented evidence, however, generally focuses upon the owners of private independent firms for profit.

Theme 6 relates to the *outcomes of entrepreneurial endeavours*. The economic and non-economic outcomes of entrepreneurial endeavours relate to the entrepreneur and the firm. Learning from PBOE is discussed in Chapter 7. Entrepreneur and firm performance differences between habitual and novice entrepreneurs are highlighted in Chapter 8. Future research directions are raised in Chapter 9.



**Figure 1.2 Themes Explored in Entrepreneurship Studies**

Source: Authors:

## 1.7. Summary

This chapter has highlighted that the entrepreneur and the firm can be the unit of theoretical and policy debate. With reference to the firm as the unit of analysis, we have suggested that entrepreneurs can establish, purchase and/or inherit businesses. Notably, some entrepreneurs have careers in business ownership, which we have broadly termed habitual entrepreneurs. With reference to the nature of entrepreneurship involving *new* business(es) and/or involving *existing* business(es) a categorization of habitual entrepreneurship was presented. Here, the broad habitual entrepreneur phenomenon was illustrated with reference to finer sub-types of serial and portfolio entrepreneurs. Despite no agreed widely used definition of habitual entrepreneurs (or serial and portfolio entrepreneurs), empirical studies have found that habitual entrepreneurs are highly prevalent in several national contexts. This suggests that academics, policy-makers and practitioners need to understand the backgrounds and behaviour of habitual entrepreneurs, and the sub-types of serial and portfolio entrepreneurs (Carter and Ram, 2003). The movement from descriptive studies to more rigorous theory building and theory testing studies focusing on the habitual entrepreneur phenomenon was briefly highlighted. Knowledge gaps and research themes worthy of additional attention using qualitative and quantitative approaches were then alluded to. Several broad research questions were highlighted. The organizing structure of the book focusing upon the habitual entrepreneur phenomenon with reference to key themes relating to the entrepreneurial process was then discussed.

The following chapters will highlight entrepreneurial process issues relating to: entrepreneur resources from a theoretical lens, entrepreneur resource profiles, entrepreneur resource accumulation relating to finance, entrepreneur resource accumulation relating to networking and orchestration, entrepreneur opportunity discovery behaviour, entrepreneur opportunity creation behaviour, entrepreneur learning, and entrepreneur and firm performance. In the final chapter, we highlight several conclusions and implications relating to the habitual entrepreneur phenomenon. Materials from articles published by the authors are utilized to illustrate key debates, findings and implications relating to the habitual entrepreneur phenomenon. In the following chapters, the discussion relates to habitual entrepreneurs, but in several instances it relates to finer sub-groups of serial and portfolio entrepreneurs with PBOE compared against novice entrepreneurs with no PBOE.



### **1.8. Reflection Questions**

In Chapter 1, several issues relating to the nature and scale of the habitual entrepreneur phenomenon were highlighted. Please consider the following reflection questions:

- *Why should the entrepreneur be the unit of analysis?*
  - *Do all entrepreneurs solely establish a single private firm?*
  - *What are the key elements when defining habitual entrepreneurs?*
  - *Is the habitual entrepreneur phenomenon important for policy-makers?*
  - *Should policy-makers solely support the formation of new private independent firms?*
- Do entrepreneurs differ in relation to the stock and stream of experience?*